Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	
Universal Service:	)	CC Docket No. 96-45
Promoting Deployment and	)	
Subscribership in Unserved	)	
and Underserved Areas, Including	)	
Tribal and Insular Areas	)	

Comments of the
Rural Utilities Service

The Rural Utilities Service (RUS), a rural development agency of the United States Department of Agriculture, actively supports and promotes the universal availability of a broad range of telecommunications and information services in rural America through its Telecommunications Program. The agency also administers programs to help finance the provision of electricity, drinking water, the removal and disposal of wastewater, and the provision of distance learning and telemedicine applications rural areas. It is the successor agency to the Rural Electrification Administration (REA) and has been helping rural communities finance modern telecommunications facilities and service for fifty years.

The matters contemplated in this Further Notice have been the specialty of the RUS since the inception of its Telecommunications Program. When the Telephone Amendments were added to the Rural Electrification Act in 1949, only 39% of America's farms had telephone service. Today, thanks to both universal service support and the RUS financing programs, telephone service penetration in most of the rural areas served by RUS borrowers has improved to rates comparable to those in urban areas. Unfortunately, there are still rural communities without access to modern telecommunications services. In particular, Native Americans living on tribal reservations have some of the lowest telephone penetration rates in the nation.

The RUS is proud of its contributions to improved telecommunications services in many Native American communities. In 1976, RUS financed its first tribal telephone company, the Cheyenne River Sioux Tribe Telephone Authority in Eagle Butte, South Dakota. RUS also provides financing to four tribal borrowers in Arizona[1] and a new tribal borrower in New Mexico[2]. The RUS finances 12 rural Alaskan telephone companies and cooperatives who have thousands of

[1] The Tohono O'Odham Utility Authority in Sells; the San Carlos Apache Telecommunications Utility in San Carlo; Gila River Telecommunications, Inc., in Chandler; and Fort Mojave Telecommunications in Fort Mojave.
[2] The Mescalero Apache Telecom, Inc., in Mescalero.

Native American customers. In 1976, the RUS made its first loan to a borrower serving an insular area, the Guam Telephone Authority, and the Agency now has borrowers in Hawaii, Micronesia, Guam, the Marshall Islands, and Palau. In addition, the RUS financed major extensions in telephone service in Puerto Rico and the Virgin Islands, and those projects have grown in financial strength and have "graduated" from the RUS program. In total, 64 of the current 825 RUS-financed rural Local Exchange Carriers (LECs) serve reservation lands. The following comments are based on experience gained from this unparalleled record of accomplishment in promoting deployment and subscribership in unserved and underserved areas, including tribal and insular areas.

The RUS is committed to working with communities to find solutions to their telecommunications needs. The RUS believes that the Telecommunications Act of 1996 (Telecommunications Act or Act) gives the Federal Communications Commission (Commission) and their state counterparts the tools to create a universal service system which provides "specific, predictable and sufficient" mechanisms of support which can bring affordable telecommunications services to all Americans. The RUS has commented on many of the FCC's notices regarding universal service in the last three years including two recent filings on service to Native American communities. Copies of these and other relevent filings have been attached for the convenience of the Commission. All previous RUS comments are available at our website: **www.rurdev.usda.gov/rus**.

General Comments

This Further Notice covers two significantly different problems: Extending new service into unserved areas, and improving service penetration in underserved areas. The two problems do not share all primary causes, and separating them facilitates a more useful consideration of primary causes.

Unserved Areas

When an area is unserved, it is because no LEC has been found to serve it. This absence of a carrier is caused by at least one (and usually both) of the following circumstances:

1. The economics of serving the area do not allow the presentation of a successful business case.

High estimated plant costs and low revenue expectations usually combine to create this situation. This is a financial situation and it can be fixed by creating a precisely targeted, adequately funded, sufficient universal service support mechanism. In short, it has a regulatory solution.

2. No existing carrier is willing to enter the area and provide service and no new carrier has come forward to serve the area.

Existing carriers may wish not to expand their service areas for a variety of reasons, but the most common is that they do not believe it will be profitable. Universal service decisions already made by the Commission make extending service by some larger existing carriers very difficult. The alternative, the creation of a new carrier, is also often elusive because a successful LEC requires financial, technical, and legal expertise that is hard to bring together in an entity formed to serve a small, unserved area. Reasonable and affordable financial incentives for serving new areas might help solve the problem of absence of carrier, but the solution to the absence of a carrier is not solely a financial one.

The RUS has helped communities solve the absence of a carrier problem in several ways. The most common solution has been to encourage a neighboring carrier with demonstrated management resources to enter the unserved area. The Pine Ridge Indian Reservation in Pine Ridge, South Dakota, is an excellent example of this solution. The Golden West Telecommunications Cooperative in Wall, South Dakota, provides the Pine Ridge Reservation with state-of-the-art local exchange service. Native Americans on the Pine Ridge Reservation (in one of the poorest counties in the U.S.) can subscribe to voice grade or advanced telecommunications services.

Another option is to help create a utility, investor owned or cooperative, tribal or otherwise. It is preferable that the utility be locally owned and operated. Locals generally bring the greatest will to serve their difficult region because they understand how their choices will affect their neighbors. The Cheyenne River Sioux Tribe Telephone Authority in Eagle Butte, South Dakota (Cheyenne River), is a good example of this solution. This company was started in 1978, and today provides state-of-the-art telecommunications to about 2,800 subscribers. It is financially strong and mature. Cheyenne River benefits from good management, planning, and construction, but it has something that many unserved areas lack - a customer base of sufficient size to provide reasonable economies of scale of operation.

Competitive Bidding

The Carrier of last resort provisions of the Telecommunications Act were designed to ensure that the vision of universal service could at last be realized by those Americans long left behind. In our earlier filings we encouraged experimentation with universal service mechanisms to find appropriate solutions for unserved areas. It may be that there are cases where no carrier will commit to serve an unserved area (or improve service in an underserved area). In such cases, a competitive bidding system for universal service support may be the most efficient way to attract a carrier to these exceptional areas. Any perceived administrative or economic efficiency should be balanced against the significant regulatory oversight necessary to ensure that the promised services are delivered.

Before turning to competitive bidding several things must be considered:

- First, the tribal or other unserved community affected by such bidding should consent to this

approach.

- Second, the terms of the bid would have to grant exclusivity for a term sufficient to recover costs of construction. Bid terms would also have to set rates and charges.
- Finally, the Commission must ensure that no carrier is willing to serve the area with advanced services capable plant under current support mechanisms. For example, in the 1990s, significant progress has been made in enhancing service to tribal communities and several new tribal utilities have successfully increased telecommunications penetration rates. It is particularly important to determine that no provider is about to take on the task. It would be a cruel irony if in the name of perceived economic efficiency, nascent local providers were denied the universal service support available under current mechanisms.

A workable system could be designed along the following lines. There would be two components to the bid. The first would consist of a universal service grant that would offset some or all of the excess construction costs required to serve the area. The bidder may determine this component is required to overcome corporate hesitancy to make an investment where the return will depend on sustained, regulatory-body-determined support. The second would consist of the operating cost support for a period determined by the bidder during which the bidder has exclusive operating rights. This period would not be allowed to exceed the useful economic life of the required infrastructure. Winning bids would be determined by present value analysis of the two component costs. The RUS wishes to emphasize that it is only suggesting a competitive bidding process for the exceptional cases. The disadvantage of such a competitive bid mechanism is that once it is in place, carriers would probably always wait to declare their willingness to serve an unserved area until the Commission conducted the bidding process for the area.

Complicating the absence of a carrier issue is the fact that perceived easy solutions to the problem may only be good solutions in the short term. The most important characteristic for a carrier selected to serve an unserved area is commitment. The carrier must be committed to serving the telecommunications needs of the entire area, using proven, modern telecommunications technology that has the same capability to evolve at comparable cost as plant used in large cities and towns.

The RUS cautions against selecting a “voice only” solution which will lock in low bandwidth service just to get some kind of service into a high cost area. A policy of technological neutrality cannot ignore the ability of a technology to evolve. The Telecommunications Act requires that advanced services be made available in all regions of the nation. A proposed “voice only” shortcut may delay the next step, a general deployment of plant to provide advanced services in the area, or make it cost prohibitive. If adding advanced services capability in a rural area requires overlaying another technology on top of that providing only voice grade access, the area is not likely to be able to support it without substantially higher levels of universal service support or higher rates.

Existing local exchange carriers are hesitant to invest in high cost, limited revenue service areas today because they are not sure how the universal service support mechanisms under consideration here will turn out. The RUS finds, in general, that rural LECs are not borrowing and investing as fast as they were before passage of the 1996 Act. In particular, they are delaying investments in outside plant (the type of plant that bears the high cost of distance). Providing "sufficient, predictable, and sufficient" support to these areas to secure modern telecommunications, as the Act requires, is the way to close the "digital divide." The RUS has found that deployment of modern, advanced services capable plant is the more prudent option in the long run.

In summary, the challenges of deploying service in unserved areas are:

- Creating a precisely targeted, adequately funded, and sufficient universal service support system
- Finding a local exchange carrier willing to serve the area
- Serving unserved areas today with a technology that will *cost effectively* migrate to provide advanced services

Underserved Areas

According to a RUS analysis of the 1990 Census, among communities with population of 1250 or less there were 410 communities in 36 states with 1/3 or more of the households without telephone service. In communities with population greater than 1250, there were 33 communities in 14 states with 1/3 or more of the households without service. Low penetration is a serious problem in rural areas and small towns.

In an area that has an authorized incumbent LEC, poor service penetration levels can be caused by telecommunications plant of inadequate area coverage or capacity often exacerbated by pricing policies which discourage subscription, by plant of poor quality, or by customer's inability or unwillingness to pay the price for service.

1. Plant is of inadequate area coverage or capacity.

When a LEC's plant in a rural area is nearing the exhaust of its circuit capacity, the LEC may ration its limited plant capacity by using nefarious pricing mechanisms that discourage subscription. For example, subscribers seeking initial service may be required to make a one-time payment to defray part of the cost of connecting them to the exchange. These line extension charges, called "contributions in aid to construction" (aid to construction), act as a formidable barrier to many rural families seeking initial telephone service. In rural areas, aid to construction assessments are often thousands of dollars (the notice mentions several of over $100K). The RUS generally prohibits its borrowers from charging aid to construction for all proposed customers within a defined loan project, and believes this mechanism to be a principal cause for low service penetration in underserved areas. This RUS loan policy of prohibiting line extension

charges[3] in connection with RUS-financed construction is responsible for the high penetration rates among RUS borrowers, and has been exceptionally effective in achieving high service penetration rates on tribal lands, both those served by tribally-owned LECs and by other LECs.

The other widely-used pricing mechanism that some LECs use to extend the life of otherwise exhausted plant, to limit new investment, and to ration available plant capacity, is to charge distance premiums, often called "zone" or "mileage" charges. In this scheme, customers farther away from an arbitrarily selected point known as an exchange's base rate area[4] are charged more for monthly service. Zone and mileage charges affect a relatively small number of customers in an exchange, so they have a minimal affect on the average monthly cost of service and don't show up much in study area and national cost-of-service statistics. But their effect on those who pay them (and those who can't) is substantial. The zone and mileage charges paid by some rural customers can be much higher than the basic rate charged to town subscribers for the same service in the same exchange. RUS has a policy for borrowers that are not subject to state rate regulation whereby as a condition to financing they agree to adopt rate schedules without mileage or zone charges on the lowest grade of service, which is one party service in almost all cases today. Borrowers that are subject to state rate regulation are required to use their diligent best efforts to obtain approval of such rates without mileage or zone charges.

The RUS is concerned that in the future some LECs may use these pricing mechanisms to enable them to "offer service throughout the study area" as required to become an eligible telecommunications carrier (ETC) without actually having to provide service to high cost areas. The use of these pricing mechanisms to limit exposure to higher cost service would be contrary to the Telecommunications Act's premise that universal service support should be provided only to those who are actually providing universal services. These pricing mechanisms could facilitate "federally-supported cream skimming" and could place intolerable financial pressure on the carrier of last resort who could be left serving only high cost subscribers. As currently designed, the universal service support mechanism for non-rural LECs does not limit the use of these pricing mechanisms for ETCs who receive interstate universal service support

The universal service support system for both rural and non-rural LECs should be designed to discourage the use of these pricing mechanisms. The Congress spoke very clearly in the Telecommunications Act that all rates be "just, reasonable and affordable" and that rates and services be comparable between rural and an areas. These pricing schemes merit close examination by the Commission to determine whether such pricing is appropriate in light of the Telecommunications Act's clear mandate. Universal service programs should be designed to provide for service without reliance on line extension or mileage or zone charges.

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[3] For non-RUS financed construction, RUS borrowers are required to limit line extension charges to the construction cost that exceeds seven times the annual local service revenues expected from the customer. This longstanding revenue related policy was established before the introduction of the high cost fund which is intended to provide for such high cost customers. It is under review pending the implementation of the new universal service mechanism.

[4] A base rate area approximates the more densely populated town area of a rural exchange.

2. Poor Plant Quality

Poor plant quality is generally caused by LEC management decisions not to renew plant when needed. This is usually a result of spending priorities, i.e., management chooses to invest available capital resources in areas where earning potential is greatest or where there is competitive pressure to provide state-of-the-art service. In contrast, quality of service in rural areas is set at the level defined not by competitive pressures, but by the Commission in its definition of supported services. The Commission has passed on to the states the daunting job of tying receipt of universal service funding to its purpose which is to support and advance universal service in the higher-cost-to-serve areas of the nation. The RUS has recommended that support be tied to actual investment in rural infrastructure. The new universal service support system adopted by the Commission bases support on a proxy cost model, which is indifferent to investment. This mechanism does not reward new, recent, or any, rural investment. All a LEC must do to receive support is provide the supported services defined by the Commission. This does little to ensure that the quality of service offered by this supported plant is comparable to that offered in easier-to-serve low cost areas. The RUS has repeatedly argued that the link between investment and support needs to be maintained, especially for rural carriers who do not have large, lucrative urban areas to offset high cost areas.

The RUS was very concerned when the Commission reduced the quality of supported service by shrinking the definition of voice-grade bandwidth. In the Fourth Order on Reconsideration, released December 29, 1997, the Commission reduced the required bandwidth to the 1950's standard of 300-3000 Hz.[5] The RUS welcomed the announcement by the Chairman that the Commission will soon open a proceeding to reconsider bandwidth requirements for supported services.

3. A Customer's Inability or Unwillingness to Pay the Price for Service

Even among RUS-financed LECs, where aid to construction and distance-related monthly premiums are limited, there are areas where service penetration rates are low. The Further Notice mentions the Dell Telephone Cooperative (Dell), in Dell City, Texas, as having a service penetration rate of only about 82.8%, according to the 1990 Census. Dell is a good case study. According to a 1994 survey of the area prepared by Dell to support an RUS loan, the actual service penetration rate system-wide was 74%. Dell serves approximately 1000 customers in subscribers in 6 exchanges. Two exchanges, Guadalupe Peak at 56% penetration with 152 subscribers, and Mile High at 35% penetration with 72 subscribers, principally account for the low penetration rate. A major purpose of Dell's "R" loan, which was made by RUS in 1996, was

[5] See RUS comments on this in an Ex Parte filing dated January 30, 1998, and RUS's subsequent ex parte support for the higher bandwidth requirement for new investment proposed by the WUTC (attached).

to build adequate outside plant to serve additional customers in these exchanges. This new plant was based on carrier serving area (CSA) plant architecture, and Dell's engineers designed this plant for the widest practicable number of subscribers, in other words, universal services. Even so, Dell projected in 1994 that of the 120 inhabited establishments without service in Guadalupe Peak, only 29 would subscribe when the new, high-quality plant became available. Mile High was even worse. This exchange with 35% penetration was expected to add only 13 of the 136 existing unserved inhabited establishments once new universal service plant was completed. One of the principal purposes of the loan was to replace most wireless subscriber loops with CSA architecture plant using buried copper and fiber optic cables. With its longer useful service life and lower maintenance, traditional wireline plant got the nod over wireless plant from the management of this exceptionally rural LEC.

Why did so many households in these two exchanges decline to purchase high quality telephone service when it was available to them? It isn't because the cost of the service dramatically exceeded those elsewhere in Texas. Dell's local service rates are $15.40 per month. Some of the unserved households are very poor and cannot afford service, even at this price. Some of these unserved households may not want to subscribe to telephone service.

RUS has found that in many rural communities of limited means, the availability of lifeline and link up rates are not widely known. One solution would be to this problem would be a broader effort to inform the public of these universal service support programs.

It is interesting to note that Dell Telephone Cooperative receives a significant amount of high cost fund support – for 1999 that amount is reported in the Federal-State Joint Board Monitoring Report to be $1600 per loop. If this area were served by the RBOC in Texas, according to the same Monitoring Report, each loop would receive no support. The universal service support mechanism should be designed so that any carrier can afford to serve these high cost subscribers. This will require a precisely-targeted universal service mechanism so the needed support goes only to the carriers serving the actual high cost customers.

In summary, the problems to be solved to increase service penetration are:

- Enticing LECs to perform plant renewal when needed to provide adequate area coverage and circuit capacity.
- Bringing service quality in rural areas into true comparability with those services available to urban customers.
- Keeping rates for local service affordable, and consistent with rates paid for the same services in nonrural areas.
- Creating a precisely-targeted and sufficient universal service support mechanism.
- Providing adequate low income support to enable households to subscribe to reasonably-priced local service.

Recommendations

The keys to improving deployment of service in unserved areas and improving subscribership rates in underserved areas restated briefly are:

1. Creating a precisely targeted and sufficient universal service fund
2. Finding a LEC to serve an unserved area
3. Enticing LECs to renew plant when needed
4. Making rural service truly comparable to urban service
5. Ensuring that rural LECs use technology that can cost-effectively add advanced services
6. Keeping rural service rates affordable
7. Providing special assistance to extremely low-income households to make local service available to all

The Commission has the tools necessary to solve these problems. The RUS respectfully makes the following recommendations:

1. The new universal service funding mechanism should target support to all high cost customers and only high cost customers. Study area averaging prevents such targeting and may cause the fund to be larger than necessary. Universal service support portability, which the Commission maintains is needed for competitive neutrality of the mechanism, could be destructive to universal service unless only the high cost customers generate support for a carrier.

The Commission has a cost model (Hybrid Cost Proxy Model, HCPM) that calculates forward looking economic costs on a per cluster basis, before combining those costs into study area averages. The Commission could target support to high cost customers by assigning payments only to customers within high cost cluster areas.

2. New ideas should be explored for finding LECs to serve unserved areas. For example, a new study area should be created for each unserved area. Rural and non-rural LECs should be able to earn support when providing modern service to this study area. This would have the effect of targeting and enhancing support for the unserved areas of the nation.

A characteristic of the current universal service support mechanism is the delay in paying support. This discourages the formation of new entities to serve unserved areas. The early months are critical for any new telecommunications entity. Current universal service rules create a significant lag between the initiation of service and the flow of support payments. The Commission should establish procedures that would allow support funds to flow to service providers much more quickly. Initial support could be determined by RUS cost studies and subscriber projections, and by pro-forma studies for non-RUS borrower.

Many tribal lands and states do not recognize state regulatory authority on tribal lands within the states, so the Commission may have sole authority to regulate telecommunications services in

these areas. The Commission should use its authority swiftly in finding a qualified carrier to provide service.

The FCC should permit "in kind" contributions to universal service under certain circumstances. Carriers should be given the opportunity to provide modern services in designated unserved and underserved areas in lieu of cash contributions to the Universal Service Administrative Company. In kind contributions could also be considered for temporary service provided by non-eligible carriers up to the amount by which they reduce their rates so that they can provide their service at rates that are reasonably comparable to urban rates. This might provide some communities with a "bridge" that could serve until advanced services capable plant is built. This could be attractive to non-advanced services capable wireless providers.

3. Ways must be found to entice LECs to renew plant when needed. The key to enticing LECs to renew plant is to make it pay. The universal service support mechanism recently adopted for non-rural LECs bases payment of support on a forward-looking economic cost of providing the cost, as computed by the HPCM. This implementation will not encourage investment in rural, high cost areas. In fact, it will reward those carriers who decline to invest. A link must be established between investment and payment of support, so that LECs who invest in rural plant receive more support than LECs who don't invest. In short, it may not currently pay to invest in a rural area if you are a non-rural LEC. The RUS is concerned that if an inappropriately applied forward-looking model-driven cost method of determining support is selected for rural LECs at some point in the future, it may not pay for them to invest in rural plant either.

The Commission Must Solve the "Parentage" Problem

The Commission should welcome acquisitions of rural exchanges, not discourage them as is now the policy. Sales and acquisitions of exchanges are a natural result of deregulation. As LECs work to position themselves in the competitive marketplace, they may find parts of their businesses that they do not wish to continue. If non-rural LECs do not wish to invest their capital in rural areas, they will not invest. But when an exchange is acquired by a rural LEC from a non-rural LEC, the May 8, 1997, First Order on Universal Service, tied an acquiring company's universal service support to the per-line support of the selling LEC. This "parentage" of the exchange is an impediment to investment, and even its acquisition.

The RUS understands the reasons that the Commission believes required the setting of an interim cap on the high cost fund. Without endorsing the appropriateness of a cap or its current level, we believe it should be adjusted when granting study area waivers which allow either an existing or new LEC to qualify for universal service support as a rural carrier. The Commission's three-pronged test for approving such waivers carries the presumption that such adjustments will be made. The first prong requires that the waiver for any single carrier shall not increase total universal service support, presumably high cost support, by more than one percent. But the cap prevents any increase. At a minimum, the cap should be reset by the amount approved in each

study area waiver. If Commission believes in letting market forces work, then removing significant regulatory impediments to the sale of rural high cost exchanges is one action that would help improve subscribership and service quality in rural areas.

Mechanisms used by LECs to ration available plant capacity are counterproductive in a universal service effort and should be avoided. These mechanisms are only needed if universal service support is insufficient. The Commission should examine these mechanisms and determine whether aid to construction and zone and mileage charges, particularly when imposed on low-income rural residents, violate the principles of the Telecommunications Act. And finally, Eligible Telecommunications Carrier status should not be granted to carriers who impose anything but nominal aid to construction charges and zone and mileage charges in areas qualifying for universal service support. However, this last step is not a remedy to this problem. The difference in cost of serving low cost town customers and high cost rural customers is so great that some LECs will target the low cost customers in rural towns even without the benefit of receiving universal service support. Precise targeting of universal service support is needed to alleviate this problem, so that a carrier of last resort left serving only high cost customers would receive adequate universal service support to continue doing so.

In those circumstances where state authorities lack jurisdiction over tribal territory, the Commission should use its authority to monitor and order service improvements on tribal lands.

4. We must make sure that services offered in rural areas are truly comparable to those offered in urban areas. Tribal lands are in special need not only of voice communications, but also of access to the rural economic development opportunities that e-commerce is bringing to other areas of the nation. E-commerce today depends on modern modem access over voice grade circuits. E-commerce in the near future will depend on the higher speed access that advanced services will offer. The Commission should avoid "quick fixes" through the creation of artificial incentives for low bandwidth voice-only services. To the greatest extent possible, supported services should be capable of providing access to advanced services. A "voice-only" solution will isolate consumers already left behind too long from the e-commerce-driven information age economy and create a sub-tier of universal service for tribal communities not contemplated by the Telecommunications Act.

The Commission's announced reconsideration of supported bandwidth is encouraging. The RUS has objected to the reduction in bandwidth from the First Order on Universal Service, May 8, 1997. The new requirement of 300-3000 Hz is not the bandwidth available to urban customers on their short loops. The RUS knows there is no technical reason for short loop bandwidth to be limited to 2700 Hz, but there apparently is no publicly available data to confirm this. Bandwidth comparability is so important to rural subscribers who need to use modems for access to the internet that the Commission should take steps to have urban bandwidth independently measured.

Nowhere is the danger of lowering the bandwidth bar more evident than in unserved areas. After waiting for years for a law which promises them the opportunity to join the information age, the unserved could find that the lowered bandwidth standards thwart that promise by encouraging the construction of long term barriers to the technologies of the next century.

5. The Commission should ensure that rural LECs use technology that can cost-effectively add advanced services. The Commission has announced an inquiry into advanced services to be conducted next year. Rural America should not have to wait for yet to be launched satellites, experimental aircraft, and other speculative technologies to provide them with advanced services, and the Telecommunications Act does not contemplate that they will have to.

6. The universal service support mechanism should enable rural and non-rural LECs to keep rural rates affordable. To keep rural penetration rates from falling, the precisely-targeted and sufficient universal service support mechanism must get the support to carriers who serve the high cost customers. Study area averaging which undermines this precise targeting, and support portability, as currently contemplated, may leave some incumbent LECs serving only the highest cost customers in their service areas. Those LECs will either have to charge unaffordable rates to their rural customers or will go out of business.

7. Special assistance should be provided to enable extremely low-income households to subscribe to local service. Even "affordable" service is not affordable to extremely low-income families, and in rural areas, telephone service are often one's only connection with emergency services. The RUS applauds recent efforts to address lifeline support inequities on tribal lands. Given the special federal relationship with Native Americans as well as the FCC's general responsibilities under section 254, the Commission should consider whether an enhanced lifeline program would be appropriate for tribal areas, insular areas, Alaskan villages, Hawaiian homelands, and other impoverished areas to ensure the "affordability" of modern telecommunications services.

The current Lifeline Program's maximum payment covers less than half of today's average cost of monthly service, and this may not be enough for some families. More emphasis should also be placed on options that allow customers to keep local service despite nonpayment of long distance charges. One additional idea would be to require a LEC to offer disconnected customers a service package consisting only of 911 and other emergency calling capabilities.

INSULAR AREAS

The RUS is encouraged that the FCC is focusing special attention on universal service support for insular areas. The Commission must be certain that its definition of insular areas does not leave Hawaii or states with island populations like Alaska and Maine with universal service rules which do not meet their unique circumstances. The RUS has observed, for example, that the Rural Health Care discount program as originally designed had rules which unintentionally made

it difficult for applicants in Alaska and Hawaii to qualify for much needed support. The RUS believes that the insular language in the Act gives the Commission flexibility to meet special telecommunications needs of island residents in states, territories, and jurisdictions with a special relationship with the United States.

The RUS is a significant lender to island nations in the Western Pacific.[6] These nations have a special relationship with the United States based on history and compacts of free association. Recent and proposed changes in international settlement rates make the Commission's examination of the application of the '96 Act's insular provisions most timely. The RUS welcomes an opportunity to discuss the unique challenges of providing telecommunications services in insular areas.

RURAL HEALTH CARE

The availability of the E-rate for schools, libraries and rural health care facilities including the availability of the RUS Distance Learning and Telemedicine program holds great promise in closing the digital divide in tribal and remote communities. The RUS has filed comments on the Rural Health Care (RHC) discount program[7] and is pleased that the Commission has expanded the RHC discounts to long distance charges. To summarize RUS' earlier comments, RHC discounts should apply to all telecommunications services, the definition of rural health care providers and clinics should be expanded to make more facilities eligible for much needed RHC discounts, distance related charges should be covered, community use should be encouraged and the maximum allowable discount rules should be abandoned. A much more simple calculation of urban/rural differential should also be developed.

CONCLUSION

The RUS tribal borrowers and borrowers serving Native American communities prove that Native Americans do not have to choose between no service and poor service. The RUS is dedicated to finding solutions for communities without service and those suffering from poor service. RUS financing, engineering expertise and quality assurance can only bring service to an eligible community if federal and state universal service policies create the sustainable economics for investment.

The problems on tribal lands, insular and remote areas are a magnification of the problems faced throughout rural America. Fortunately, the Telecommunications Act gave the Commission new and clarified authority to make it possible for the promise of universal service to be fully

6 Micronesia, Guam, Marshall Islands, Northern Mariana Islands, and Palau.
7 See RUS comments on this in a filing dated April 5, 1999, attached.

realized. A universal service support system which is focused on investment, a lifeline support system which makes service affordable for tribal and impoverished communities, and a commitment to making certain that advanced services become available, will help Native Americans and all rural Americans economically and educationally, and will improve their quality of life.

The RUS appreciates the opportunity to comment on this proceeding and welcomes the opportunity to work directly with the Commission to find innovative solutions for unserved and underserved communities. Applied properly, new telecommunications technologies offer these communities an unprecedented opportunity to succeed in the information economy.

Dated: December 17, 1999

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Attachments